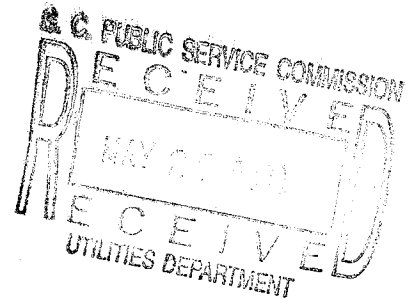


ORIGINAL

A. D. Hare Waterworks, Inc.
***Application for approval of an increase in its
water rates and charges.***



Docket No. 2001-137-W

***Testimony of
Barbara J. Crawford
Audit Department***

Public Service Commission of South Carolina

1 Q. PLEASE STATE FOR THE RECORD YOUR NAME, BUSINESS ADDRESS
2 AND POSITION WITH THE PUBLIC SERVICE COMMISSION OF SOUTH
3 CAROLINA?

4 A My name is Barbara J. Crawford. My business address is
5 101 Executive Center Drive, Columbia, South Carolina. I
6 am employed by the Public Service Commission of South
7 Carolina as an Auditor.

8 Q. WOULD YOU PLEASE STATE YOUR EDUCATIONAL BACKGROUND AND
9 YOUR EXPERIENCE?

10 A. I received a B.S. Degree in Business Administration with
11 a major in Accounting from the University of South
12 Carolina in 1978. I am a Certified Public Accountant,
13 licensed in the State of South Carolina. I am also a
14 Certified Internal Auditor. I have nineteen years
15 experience in the auditing profession. Two and one-half
16 of those years have involved the ratemaking process.

17 Q. WHAT IS THE PURPOSE OF YOUR TESTIMONY INVOLVING A. D.
18 HARE WATERWORKS, INC.?

19 A. The purpose of my testimony is to set forth in summary
20 form Staff's findings and recommendations resulting from
21 our examination concerning the above docket. These
22 findings and recommendations are set forth in the report
23 of the Audit Department with attached exhibits.

1 Q. I SHOW YOU THIS REPORT WITH ITS ATTACHED EXHIBITS,
2 ENTITLED "REPORT OF THE AUDIT DEPARTMENT, THE PUBLIC
3 SERVICE COMMISSION OF SOUTH CAROLINA, DOCKET NO. 2001-
4 137-W, A. D. HARE WATERWORKS, INC." DID YOU AND THE
5 AUDIT STAFF PREPARE THIS DOCUMENT?

6 A. Yes, the report was prepared by other members of the
7 Audit Department Staff and me.

8 Q. (MARK FOR IDENTIFICATION). WOULD YOU PLEASE SUMMARIZE
9 THE CONTENTS OF THIS REPORT?

10 A. As outlined in the report's index, pages 1 through 4
11 contain the Staff's analysis of the report, with the
12 remaining pages 5 through 16 containing the Audit
13 Staff's supporting exhibits. The major part of my
14 testimony will refer to Audit Exhibit A, entitled
15 Operating Experience, Rate Base and Operating Margin.
16 Such Exhibit, as do all other of the Audit Staff's
17 exhibits, utilizes a test year ending December 31, 2000.

18 Q. DO YOU HAVE ANY FURTHER EXPLANATION OF EXHIBIT A?

19 A. Yes, I do. The Staff prepared the exhibit in compliance
20 with the Commission's standard procedures as to
21 calculating income, rate base, and operating margin for
22 water utilities. A brief description of exhibit A is as
23 follows:

1 Column (1): Presents the Company's per book operations
2 as of the end of the test period under review. Special
3 emphasis is placed on net income for return, rate base
4 and operating margin.

5 Column (2): This column details the Staff's accounting
6 and pro forma adjustments. Such adjustments were made
7 by the Staff in order to correct or normalize the
8 Company's per book operations during the test year.

9 Column (3): This column presents Staff's computation of
10 the Company's normalized test year prior to giving
11 effect for the proposed increase.

12 Column (4): This column presents the proposed increase
13 in water rates as computed by the Commission Staff
14 Utilities Department and the resulting adjustments to
15 expenses.

16 Column (5): This column presents the Staff's computation
17 of the Company's normalized test year, after giving
18 effect for the proposed increase and the related expense
19 adjustments.

20 **Q. PLEASE ELABORATE ON THE CALCULATIONS IN EXHIBIT A.**

21 **A.** As shown in column (1), per books operations, the Staff,
22 using the Company's records, computed net operating
23 income per return of \$8,128. Using a per book rate base

1 of \$155,209, the Staff computed an operating margin of
2 0.61%.

3 In Column (2), the Staff presents the effect of
4 accounting and pro forma adjustments. Such accounting
5 and pro forma adjustments are described in Exhibit A-1.

6 Shown in Column (3) are the Company's operations as
7 adjusted by the Staff. The Staff computed net operating
8 loss per return of \$(3,919). The Staff computed the
9 adjusted rate base to be \$138,112. The Staff computed
10 the adjusted operating margin to be (5.04)%.

11 Column (4) presents the Staff's computation of the
12 Company's proposed revenue increase of \$54,471. The
13 Staff increased other taxes, income taxes and customer
14 growth for the effect of the proposed increase. The
15 effect of the proposed increase on net income for return
16 was computed to be \$46,038.

17 Column (5) presents the Company's operations as adjusted
18 to normalize the test year on a pro forma basis and
19 after the effect of the proposed increase. As a result,
20 the Staff computed net income for return of \$42,119. The
21 Staff computed a rate base of \$138,112. The operating
22 margin increased to 18.84% after the effect of the
23 proposed increase.

1 Q. WOULD YOU PLEASE BRIEFLY DESCRIBE THE OTHER AUDIT
2 EXHIBITS IN THE STAFF'S REPORT?

3 A. Exhibit A-1 details the accounting and pro forma
4 adjustments made by the Staff and/or the Company.
5 Company and Staff adjustments are compared in this
6 exhibit with a brief description of each adjustment.

7 Exhibit A-2 details the Staff's computation of the
8 Company's customer growth. The Staff performed the
9 growth calculations using the formula method as detailed
10 in Exhibit A-2.

11 Exhibit A-3 details the Staff's computation of cash
12 working capital using the formula method. The Staff
13 considers the formula method to be appropriate for use
14 in this case. The Staff's formula uses a forty-five day
15 cash working capital allowance.

16 Exhibit A-4 provides a reconciliation of the net income
17 for return computed by the Company to the net income for
18 return contained on Staff's Exhibit A.

19 Exhibit A-5 gives a reconciliation of the rate base
20 contained in the Company's application to the rate base
21 computed by the Staff on Exhibit A.

22 Exhibit A-6 provides a calculation of the Company's
23 return on common equity. The rate base, as shown on

1 Exhibit A, is allocated among the various classes of
2 debt and equity, excluding short term debt, according to
3 their respective ratios as computed using the Company's
4 capital structure as of December 31, 2000. The amount of
5 as adjusted net income for return needed to cover
6 embedded cost rates on long term debt of 9.35% was
7 computed by Staff to be \$3,630. The remainder of net
8 income for return is income to common equity. The Staff
9 computed a negative return on common equity of (7.60)%
10 after accounting and pro forma adjustments. After the
11 proposed increase the return on common equity was
12 computed to be 38.76%.

13 Audit Exhibit A-7 presents the Company's income
14 statement for the year ended December 31, 2000.

15 Audit Exhibit A-8 presents the company's balance sheet
16 as of December 31, 2000.

17 **Q. WHICH ADJUSTMENTS ON EXHIBIT A-1 IN YOUR REPORT ARE THE**
18 **RESPONSIBILITY OF THE AUDIT DEPARTMENT?**

19 A. The adjustments marked with an (A) are the
20 responsibility of the Audit Department witness and the
21 ones marked with a (U) are the responsibility of the
22 Utilities Department witness. The adjustments that

1 contain both an (A) and a (U) denote partial
2 responsibility of both departments.

3 Q. PLEASE EXPLAIN THE ACCOUNTING AND PRO FORMA ADJUSTMENTS
4 CONTAINED IN EXHIBIT A-1.

5 A. Adj. # 1 Annualize Revenues - Both the Staff and the
6 Company propose to annualize water and sewer revenues
7 based on a bill frequency analysis for the year 2000.
8 The Staff and the Company adjusted water revenues by
9 \$123.

10 Adj. # 2 Other Revenues - Both the Staff and the Company
11 propose to lower revenues for loan receipts which were
12 recorded as ordinary revenue in error. The Company had
13 deposited loan proceeds in the total amount of \$8,000.
14 The accountant had mistakenly recorded the deposits as
15 revenue rather than as loan proceeds.

16 Adj. # 3 Tap Fees - Both Staff and Company propose to
17 remove tap fees from revenue and expenses. Tap fees
18 amounted to \$3,900. The Staff and Company removed the
19 same amount from expenses since the cost of the tap is
20 equal to the tap fee.

21 Adj. # 4 DHEC Recoupment Fees - Both the Staff and
22 Company propose to remove DHEC Recoupment Fees. The
23 Department of Health and Environmental Control (DHEC)

1 has jurisdiction over such fees. They are billed to the
2 Company's customers as a separate line item on the
3 utility bill and are intended to recover the cost of
4 certain water testing functions required by state law.
5 The Staff and Company have eliminated revenues of
6 (\$8,903) as well as the associated expenses of (\$8,029).
7 Adj. # 5 Plant in Service - The Company has collected
8 tap fees amounting to \$77,900 from its customers since
9 1977. However, the Company only booked \$20,029 of such
10 taps into the plant in service account. Therefore, the
11 Staff increased Plant in service by \$57,871 (\$77,900 -
12 \$20,029). The accumulated depreciation account was also
13 adjusted by Staff for the above tap fees. Accumulated
14 depreciation was increased by \$(32,736). The Company
15 had already booked \$(4,551) so the Staff increased the
16 accumulated depreciation account by \$(28,185). The
17 Staff proposes to remove \$(45,164) from rate base as a
18 Contribution in Aid of Construction (CIAC). Such
19 Contribution in Aid of Construction represents the
20 amount paid to the utility by customers, since its
21 inception, for tap fees in the amount of \$(77,900) minus
22 its Accumulated amortization of \$32,736. The
23 Contribution in Aid of Construction needs to be

1 subtracted from rate base because it represents cost
2 free capital to the Company. The Staff's adjustment
3 increased Plant in Service in the amount of \$57,871,
4 increased accumulated depreciation in the amount of
5 \$(28,185), and increased Contributions in Aid of
6 Construction in the amount of \$(45,164). The Company
7 increased Plant in Service in the amount of \$23,295,
8 decreased accumulated depreciation in the amount of
9 \$4,551, and increased Contributions in Aid of
10 Construction in the amount of \$(43,324).

11 Adj. # 6 Gross Receipts Taxes - The Staff and the
12 Company propose to true up per book gross receipts
13 taxes. Both the Staff and Company calculation was made
14 using the current Gross Receipts tax rate of 1.1%.

15 Adj. # 7 Depreciation Expense - The Staff and the
16 Company propose to annualize depreciation expense based
17 on plant in service at December 31, 2000. Staff
18 examined and recalculated the Company's per book
19 depreciation expense. Several accounts were fully
20 depreciated at the end of the test year. The Staff
21 removed depreciation expense of \$1,333 associated with
22 fully depreciated items. The Staff also used the
23 approved depreciation rate of 2% for the pump station,

1 account # 201. The Company used a rate of 10% for the
2 pump station. Neither Staff nor Company included any
3 depreciation expense for capitalized taps. The Staff
4 reduced depreciation expense in the amount of \$(87) and
5 made a corresponding adjustment to decrease accumulated
6 depreciation in the amount of \$87. The Company
7 increased depreciation expense in the amount of \$2,308
8 and increased accumulated depreciation in the same
9 amount.

10 Adj. # 8 Rate Case Expenses - Both the Staff and the
11 Company propose to amortize rate case expenses in the
12 amount of \$3,300. The Staff proposes to amortize such
13 expenses over eight (8) years, an average of the length
14 of time between the conclusion of the last two rate
15 cases by the Company, which occurred in 1986 and 1992.
16 The Staff's calculation results in an adjustment in the
17 amount of \$413. The Company proposes to amortize such
18 expenses over three years, resulting in an adjustment of
19 \$1,100.

20 Adj. # 9 Electricity Expenses - The Staff proposes to
21 reduce electricity expense in the amount of \$(1,293).
22 This represents the amount of electricity which was
23 determined to have been for personal use. An

1 examination of the invoices from the power companies
2 showed that a portion of the electricity expense was for
3 residential use and therefore should not be allowed for
4 ratemaking purposes. Staff's adjustment removes the
5 expense that was for residential use.

6 Adj. #10 Interest on Customer Deposits - Both Staff and
7 Company propose to annualize interest on customer
8 deposits of \$9,800. The Staff annualized interest using
9 the Commission approved interest rate of 8%, resulting
10 in an adjustment of \$784. The Company used an interest
11 rate of 12%, to arrive at an adjustment of \$1,176.

12 Adj. # 11 Contributions - The Company proposed that the
13 balance in other revenues and expenses of \$2,510 be used
14 to compensate the Company for the use of equipment by a
15 non-regulated company. The Staff agreed with the Company
16 that expenses should be reduced by this amount. The
17 Company had deducted \$100 in contributions from this
18 other revenue, resulting in a per book amount of \$2,410.
19 Therefore, both Staff and Company propose to remove the
20 effect of the \$100 contribution.

21 Adj. # 12 Telephone Expense - The Company's office is in
22 the home of one of the Stockholders of the corporation.
23 The entire telephone bill of the household is paid by

1 the water company. Staff proposes to allocate a portion
2 of the telephone expense consisting of the amount for
3 residential local touch tone service for a twelve month
4 period out of the expenses of the water company to
5 better reflect the true expenses of the Company. Such
6 adjustment reduced expenses by \$164.

7 Adj. # 13 Annualize Salaries - Staff used the latest
8 available payroll data (January 15, 2002) in calculating
9 the adjustment amount. The Staff examined the salaries
10 and wages and payroll taxes and annualized them based on
11 known and measurable changes. Staff adjusted salaries
12 and wages and payroll taxes in the amount of \$3,911.
13 The Company used a different weekly salary amount for
14 one employee and made an adjustment in the amount of
15 \$3,861.

16 Adj. # 14 Cash Working Capital - The Staff made an
17 adjustment to cash working capital based on adjustments
18 which were made to correct the books. This has the
19 effect of keeping cash working capital (CWC) on a per
20 books basis. Cash working capital was computed by the
21 staff using one eighth of operating and maintenance
22 expenses as seen on Staff Exhibit A-3. The one-eighth
23 formula approach is based on a 45 day cash working

1 capital allowance which is normally used for water
2 companies. The Company used its accounting and pro
3 forma adjustments in its calculations.

4 Adj. #15 Gasoline Expense - The Staff examined the
5 amounts expensed for gasoline and found that some of the
6 gasoline bills were for personal use. The Staff
7 therefore proposes an adjustment in the amount of
8 \$(2,025) to reduce maintenance expense.

9 Adj. # 16 Proposed Increase Water Revenue - This
10 adjustment represents the proposed increase in water
11 revenue in the amount of \$50,411 as calculated by the
12 Staff's Utilities Department.

13 Adj. # 17 Proposed Increase - Basic Facilities Charge -
14 This adjustment represents the proposed increase in
15 basic facilities charge in the amount of \$4,060 as
16 calculated by the Staff's Utilities Department.

17 Adj. # 18 Proposed Increase - Gross Receipts Taxes -
18 Both the Staff and the Company propose to include the
19 effect of the proposed increase on gross receipts taxes.
20 Both Staff and the Company computed gross receipts
21 taxes based on as adjusted revenues of \$204,244 times a
22 gross receipts tax rate of .011 to arrive at an
23 adjustment to gross receipts taxes of \$599.

1 Adj. # 19 Proposed Increase - Income Taxes - Both the
2 Staff and the Company computed the effect of the
3 proposed increase on income taxes. Both Staff and
4 Company used a blended state and federal tax rate of
5 19.25%. Staff used synchronized interest expense as
6 computed using the Company's capital structure and
7 embedded cost rates as shown on Staff Exhibit A-6 in
8 calculating income tax expense. The Staff made an
9 adjustment to income tax expense in the amount of
10 \$8,917. The Company made an adjustment to income tax
11 expense in the amount of \$6,972.

12 Adj. # 20 Proposed Increase - Customer Growth - The
13 Staff computed customer growth in the amount of \$1,083
14 for the effect of the proposed increase. Exhibit A-2
15 shows the details of this adjustment. The Staff used
16 the number of customers as of the end of December 2001,
17 since some adjustments were made based on changes that
18 took place after the test year ended. The Company used
19 the number of customers as of the end of the test year
20 and made an adjustment in the amount of \$535.

21 Q. MS. CRAWFORD, DOES THIS CONCLUDE YOUR TESTIMONY?

22 A. Yes, it does.